LASAAC

THE VALUATION OF COUNCIL DWELLINGS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

JULY 2009

LASAAC [The Local Authority (Scotland) Accounts Advisory Committee] is constituted of volunteer members representing the five funding bodies: CIPFA, ACCA, ICAS, Audit Scotland and the Scottish Government. LASAAC is primarily concerned with the development and promotion of proper accounting practice for Scottish local government. A key task in achieving this is LASAAC's representation on CIPFA-LASAAC which has produced the UK-wide local authority Statement of Recommended Practice (the local authority SORP), and is developing the new IFRS-based Local Authority Accounting Code to be introduced for 2010/11.

Further information about LASAAC can be obtained at http://www.cipfascotland.org.uk/technical/lasaac.cfm

The Chartered Institute of Public Finance and Accountancy (CIPFA) provide secretariat support for LASAAC. If you would like to contact LASAAC please communicate with

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Background to the Guidance

1. This guidance has been issued to assist in ensuring that Scottish local government financial statements provide consistent and comparable Council Dwelling valuations under International Financial Reporting Standards (IFRS) implementation.

2. Scottish local government will be required to prepare financial statements for 2010/11 and subsequent years under the "IFRS-Based Code of Practice on Local Authority Accounting in the United Kingdom" (IFRS Code). The proposed IFRS Code is subject to a consultation process during 2009 with final publication anticipated by the end of December 2009.

3. If the valuation requirements of the proposed IFRS Code in respect of Council Dwellings is amended as a result of the consultation process LASAAC will consider the implications for this guidance note and amend or withdraw the guidance accordingly.

4. This guidance is based on the presumption that there is unlikely to be a significant alteration to the Council Dwelling valuation requirements of the IFRS Code. This approach is intended to allow potentially affected Scottish local government organisations to prepare for valuation methodology changes, including restatement of values as at 1 April 2009.

5. There is currently no regulatory or legislative requirement for Scottish local government to adhere to one specific valuation methodology for Council Dwellings in preparing their financial statements. This is in contrast to the situation in England where the Housing Revenue Account (Accounting Practices) Directions 2007 apply, as allowed for under sections 78 and 87 of the Local Government and Housing Act 1989.

Requirements of the IFRS-Based Code of Practice

6. The proposed IFRS Code includes an adaptation from IFRS standards relating to land and buildings. This states :

   > *'For this section of the Code, fair value (for land and buildings) is to be interpreted as the amount that would be paid for the asset in its existing use. This requirement is met by providing valuation on the basis of exiting use value (EUV) in accordance with UKPS 1.3 of the RICS Valuation Standards'*.

7. In relation to Council Dwellings the proposed IFRS Code specifically states "*The fair value of council dwellings shall be measured using existing use value–social housing (EUV-SH)."*

8. EUV-SH is defined by the Royal Institution of Chartered Surveyors (RICS) 'Valuation Standards'. The proposed IFRS Code states the following :

> "*Existing Use Value – Social Housing (EUV-SH) is the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, in an arm's-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, subject to the following further assumptions that:*
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> - *the property will continue to be let by a body and used for social housing*
> - *at the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor's ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body's requirements*
> - *properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to relet them, rather than with vacant possession*
> - *any subsequent sale would be subject to all of the above assumptions.*"

9. The Royal Institution of Chartered Surveyors do not prescribe or require adherence to a specific valuation methodology. It is for the professional valuer to decide upon the appropriate methodology subject to the criteria and assumptions noted above.

10. LASAAC consider that for the financial year 2010/11 and subsequent years the continued use of average discounted 'right to buy' sale prices of council dwellings would be inconsistent with the adaptation in the proposed IFRS Code and the assumptions required by EUV-SH.

<u>LASAAC Guidance</u>

11. Scottish local government organisations should not use average discounted 'right to buy' sale prices for the valuation of Council Dwellings in financial statements prepared under the "IFRS-Based Code of Practice on Local Authority Accounting in the United Kingdom" (IFRS Code).

12. This applies to IFRS Code compliant opening balance sheets as at 1 April 2009.

13. As noted in paragraph 3 this guidance is based on the proposed IFRS Code and is subject to amendment should the final approved IFRS Code contain different requirements for Council Dwelling valuation.